

103 KAR 16:210. Calculation of gross income for corporations that are pass-through entities and treatment of certain deductions for their individual members, partners, and shareholders.

RELATES TO: KRS 141.010, 141.020, 141.040, 141.050, 141.208, 141.420

STATUTORY AUTHORITY: KRS 131.130, 141.018, 141.050

NECESSITY, FUNCTION, AND CONFORMITY: KRS 141.018 requires the department to promulgate administrative regulations necessary to explain or implement Kentucky's tax laws. KRS 141.040 requires pass-through entities (S-corporations, limited partnerships and limited liability companies) that are doing business in this state, to compute gross income for purposes of paying Kentucky corporation income tax. This administrative regulation establishes for pass-through entities how gross income is to be calculated. This administrative regulation also clarifies the treatment of certain deductions by individual partners, members and shareholders in limited liability pass-through entities in the computation of taxable net income.

Section 1. Gross income of those pass through entities taxable as corporations as defined in KRS 141.010(24)(b) to (h) shall be computed in a manner identical to that required for federal income tax purposes except as otherwise provided in this administrative regulation.

Section 2. Treatment of certain deductions for individual members, partners and shareholders of corporations defined in Section 1.

(1) Individuals shall deduct their distributive share of a corporation's depreciation and expense deduction allowed under Sections 168 and 179 of the Internal Revenue Code, 26 U.S.C. 168 and 179, to compute Kentucky adjusted gross income.

(2) Individuals may deduct, subject to the limitations of the Internal Revenue Code, their distributive share of charitable contributions made by the corporation.

Section 3. This administrative regulation shall apply to taxable years beginning on or after January 1, 2005. (32 Ky.R. 1821; 33 Ky.R. 66; eff. 8-7-2006.)